

HANCOCK COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

**with
INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Hancock County School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 4 through 11, 45 through 46, and 47 through 52 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky

November 13, 2017

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2017

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending General Fund balance on June 30, 2017 was \$4,492,577. Of this amount, \$1,252,389 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$3,240,188.
- Property tax rates were set by the Board at 61.7 cents and the motor vehicle tax rate was set at 40.0 cents for the 2016-17 school year.
- The General Fund had \$12.2 million in revenue excluding state on-behalf payments which primarily consists of SEEK (state funding), property, motor vehicle and utility taxes. Excluding interfund transfers and state on-behalf payments there were \$12.1 million in General Fund expenditures.
- District certified and classified staff salary scales remained the same as no increase was given other than step increases.
- A total of \$53,096 was paid in earned sick leave to those who retired during or at the end of the 2017-16 school year by the General Fund.
- The guaranteed SEEK base remained the same as FY16 which makes the per pupil funding \$3,981 per pupil. The assessment amount for our county increased by approximately \$152 million and our prior year end of year AADA increased by 1.7 students. The District observed a small decline in our home and hospital count by 4 students, as well as a decline in the exceptional child count of 22 students, and transportation count observed an increase in growth of 18 students. Overall the District had a decrease in SEEK revenue of \$544,562 during the FY17 school year.
- Lewisport Shopping Center was purchased in 2011 and has served as our vocational center for Hancock County High School. We received revenue in the amount of \$60,539 in rental income from the shopping center tenants.

- The Board approved to supply all students at Hancock County High School with iPads beginning with the 2011-12 school year. The Board entered into a 3-year lease with Apple Computer at the yearly cost of \$90,471 with a final cost of \$1.00 per iPad to purchase them at the end of the lease. Five hundred student iPads were leased through this agreement. This original lease was completed at the end of the FY14 school year. These original iPads were moved to Hancock County Middle School at the beginning of the FY15 school year and the district entered into another 3-year lease for new iPads for Hancock County High School. Five hundred and fifty four iPads were leased through this agreement and the yearly lease payment is \$90,017. This lease was continued into the third year of the agreement during FY17.
- Our schools collaborate with other local businesses, industries, and community to provide expanded opportunities for our students. As a District, we have identified Student Engagement, Project Based Learning, and Standards Based Learning/Grading as our priorities to which we commit long-term.
- The District continues to provide additional services to our students by securing grants each year. These grants provide additional funds for staffing and programs that would not be available to students if the District did not secure these available monies. The District strives to secure all resources that are available to provide resources to promote success in our students and skill enhancements to our staff.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to private-sector business.

The statement of net position presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The only proprietary funds are our community education, after school care and food service operations. All other activities of the District are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$8.3 million as of June 30, 2017.

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NET POSITION FOR THE PERIOD ENDING JUNE 30, 2017

The assets, liabilities and net position of the governmental activities of the District are as follows:

	Governmental		Business-Type		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Current Assets	4,824,163	4,749,103	320,051	326,341	5,144,214	5,075,444
Noncurrent Assets	19,063,766	19,626,083	172,109	226,905	19,235,875	19,852,988
TOTAL ASSETS	23,887,929	24,375,186	492,160	553,246	24,380,089	24,928,432
DEFERRED OUTFLOWS OF RESOURCES	2,427,401	1,767,683	-	-	2,427,401	1,767,683
Current Liabilities	1,491,166	1,578,469	-	-	1,491,166	1,578,469
Noncurrent Liabilities	16,681,216	17,391,911	-	-	16,681,216	17,391,911
TOTAL LIABILITIES	18,172,382	18,970,380	-	-	18,172,382	18,970,380
DEFERRED INFLOWS OF RESOURCES	316,768	300,800	-	-	316,768	300,800
Net Position:						
Investment in capital assets (net of debt)	6,557,968	5,947,672	172,109	226,905	6,730,077	6,174,577
Restricted for:						
Capital Projects	24,702	24,702	-	-	24,702	24,702
Other Purposes	-	-	-	-	-	-
Unrestricted	1,243,510	899,315	320,051	326,341	1,563,561	1,225,656
TOTAL NET POSITION	7,826,180	6,871,689	492,160	553,246	8,318,340	7,424,935

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Comments on Budget Comparisons

The difference between original and final budget figures occurred due to:

- Final staffing/salary adjustments were complete for the final budget phase.
- Assessment and ADA figures were finalized and adjustments made to SEEK and ad valorem taxes.
- Final grant awards were in place.
- All adjustments to employer benefits were finalized and reflected in budget.
- Additional maintenance needs.
- iPad lease payment.
- Shopping Center/Tech Center rental income projection.

- The fringe benefit rate that increased the most in 2016-17 was the amount the Board has to pay for CERS. The rate changed from 17.06% to 18.68%. All the other rates remained the same.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2017.

	Governmental		Business-Type		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues:						
From general sources:						
Property Tax	4,790,300	4,169,291	-	-	4,790,300	4,169,291
Motor Vehicle Tax	248,965	236,212	-	-	248,965	236,212
Utility Tax	1,115,239	1,226,041	-	-	1,115,239	1,226,041
Other Tax	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Investments	36,811	38,889	1,657	1,613	38,468	40,502
Other Sources	428,275	290,783	1,313	500	429,588	291,283
Gain (Loss) Fixed Assets	-	-	-	-	-	-
State & Federal Grants	6,810,187	7,328,500	-	-	6,810,187	7,328,500
Program:						
Operating Grants	4,387,108	4,488,189	675,592	673,465	5,062,700	5,161,654
Capital Grants	367,601	402,659	-	-	367,601	402,659
Charges for Services	-	-	379,338	379,680	379,338	379,680
TOTAL REVENUES	18,184,486	18,180,564	1,057,900	1,055,258	19,242,386	19,235,822
Expenses:						
Instruction	10,147,785	10,796,804	-	-	10,147,785	10,796,804
Student Support	840,541	829,366	-	-	840,541	829,366
Instructional Support	953,817	992,385	-	-	953,817	992,385
District Administration	429,810	452,357	-	-	429,810	452,357
School Administration	1,060,205	1,150,963	-	-	1,060,205	1,150,963
Business Support	563,204	467,142	-	-	563,204	467,142
Plant Operations	1,408,973	1,347,813	-	-	1,408,973	1,347,813
Student Transportation	1,252,220	1,165,058	-	-	1,252,220	1,165,058
Facilities Acquisition	-	-	-	-	-	-
Other	205,839	225,801	-	-	205,839	225,801
Community Support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Debt Interest and Amortization	367,601	402,659	-	-	367,601	402,659
Food Service	-	-	1,033,438	1,005,514	1,033,438	1,005,514
Community Education/Child Care	-	-	85,548	61,431	85,548	61,431
TOTAL EXPENDITURES	17,229,995	17,830,348	1,118,986	1,066,945	18,348,981	18,897,293
Transfers In	-	-	-	546	-	546
Transfers Out	-	(546)	-	-	-	(546)
Change In Net Position	954,491	349,670	(61,086)	(11,141)	893,405	338,529
Net Position Beginning	6,871,689	6,522,019	553,246	564,387	7,424,935	7,086,406
Net Position Ending	7,826,180	6,871,689	492,160	553,246	8,318,340	7,424,935

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *58% with approximately **41% coming from local sources.

*State Revenue \$8,793,664 divided by Total Revenue \$15,069,512 is equal to 58%

**Total Local \$6,214,473 divided by Total Revenue \$15,069,512 is equal to 41%

BUDGET ALLOCATION

Approximately 75% or \$11,261,869 of the General Fund budget was expended for instruction/administration at the school level, some of which was directed by the Site-Based Decision Making Councils. Approximately 11% of the funds not directly under control of SBDM was spent servicing children with special needs. The amount of funds going to children with special needs is derived from the total budgeted for all special education expenditures including salaries.

SCHOOL ALLOCATION

Regular instruction accounts for 68% of the school level expenditures.

Total instruction includes regular instructional staff, instructional support staff such as support personnel and classroom assistants and other expenditures to support instruction. Total instruction expenditures are \$8,787,771 for regular instruction and \$1,414,003 instructional support staff for a total of 10,201,774.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,208,295, maintenance & operations \$1,437,188, business support \$536,291 and district administration of \$411,803 for a total central office support expense of \$3,593,577 or 24%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants decreased by \$166,980 from the previous fiscal year.

Food Service Fund is categorized as a major fund. Food service is a business-type activity. This program had revenues of \$1,005,855 for fiscal year 2017. Expenditures for this program were \$1,033,437 for fiscal year 2017. This meant a decrease in net position for Food Service of \$(27,582). The Board of Education continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

CURRENT ISSUES

Hancock County Schools continue to budget conservatively and adhere to the staffing policies that are currently in place. The FY17 showed a slight decrease in EOY AADA of .26 students compared to the FY16 school year.

Property assessment for the 2016-17 fiscal year had an increase of \$152 million compared to FY16. The Board approved the 4% increase rate of 61.7 cents for the 2016-17 fiscal year. The Board approved a motor vehicle tax rate of 40 cents per \$100 of assessed value upon all motor vehicles and watercraft. For fiscal year 2016-2017 there was an increase in real property tax revenue of \$544,513 and an increase in motor vehicle tax revenue of \$12,753. The utility tax collections decreased by \$110,802.

Hancock County Public Schools have a proud tradition of K-12 academic excellence. As a district, we are being strategic in our long-term planning for professional learning around the following initiatives: Project Based Learning, Standards Based Learning & Teaching, Increasing Rigor through Research-Based Instruction and Student Engagement. Kentucky is currently in a transition period for accountability. There are no rankings or comparable composite scores released. With that said, Hancock County Schools held steady in student achievement and expects to be on track for whatever the new state system looks like moving forward.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$491,931 in contingency.

It is extremely important that the District continue to budget conservatively. The District receives approximately 41 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the State should be considered only an estimate of state revenue. If the State's revenue falls below their own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 29 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent or to Nick Boling, Treasurer, (270) 927-6914, or by mail at 83 State Route 3543, Hawesville, Kentucky 42348.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,587,901	\$ 289,656	\$ 4,877,557
Receivables:			
Taxes	113,956	-	113,956
Intergovernmental – State	4,690	-	4,690
Intergovernmental – Federal	117,616	-	117,616
Inventory	-	30,395	30,395
Net capital assets	<u>19,063,766</u>	<u>172,109</u>	<u>19,235,875</u>
Total assets	23,887,929	492,160	24,380,089
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	753,778	-	753,778
Deferred outflows of resources related to pension expense	<u>1,673,623</u>	<u>-</u>	<u>1,673,623</u>
Total deferred outflows of resources	2,427,401	-	2,427,401
LIABILITIES			
Unearned revenue	198,536	-	198,536
Current maturities of bond obligations	1,158,813	-	1,158,813
Current portion of accumulated sick leave	108,348	-	108,348
Interest payable	25,469	-	25,469
Noncurrent net pension liability	4,977,871	-	4,977,871
Noncurrent maturities of bond obligations	11,321,516	-	11,321,516
Noncurrent portion of accumulated sick leave	303,000	-	303,000
Noncurrent portion of accrued expense	<u>78,829</u>	<u>-</u>	<u>78,829</u>
Total liabilities	18,172,382	-	18,172,382
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension expense	316,768	-	316,768
NET POSITION			
Invested in capital assets, net of related debt	6,557,968	172,109	6,730,077
Restricted for:			
Capital expenditures	24,702	-	24,702
Unrestricted	<u>1,243,510</u>	<u>320,051</u>	<u>1,563,561</u>
Total net position	\$ 7,826,180	\$ 492,160	\$ 8,318,340

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

FUNCTION/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities						
Instruction	\$ 10,147,785	\$ -	\$ 2,695,359	\$ -	\$ (7,452,426)	\$ -
Student support services	840,541	-	230,373	-	(610,168)	-
Instructional staff support services	953,817	-	444,128	-	(509,689)	-
District administration	429,810	-	56,533	-	(373,277)	-
School administration	1,060,205	-	249,856	-	(810,349)	-
Business support services	563,204	-	99,688	-	(463,516)	-
Plant operations and maintenance	1,408,973	-	145,881	-	(1,263,292)	-
Student transportation	1,252,220	-	300,215	-	(952,005)	-
Food service operation	23,931	-	1,858	-	(22,073)	-
Community services	181,908	-	163,417	-	(18,491)	-
Interest	367,601	-	-	367,601	-	-
Total governmental activities	17,229,995	-	4,387,108	367,601	(12,475,286)	-
Business-type activities						
Food service	1,033,438	329,438	675,592	-	-	(28,408)
Other business-type activities	85,548	49,900	-	-	-	(35,648)
Total business-type activities	1,118,986	379,338	675,592	-	-	(64,056)
Total primary government	\$ 18,348,981	\$ 379,338	\$ 5,062,700	\$ 367,601	(12,475,286)	(64,056)
			General revenues			
			Taxes:			
			Property	4,790,300	-	4,790,300
			Motor vehicle	248,965	-	248,965
			Utilities	1,115,239	-	1,115,239
			Earnings on investments	36,811	1,657	38,468
			State grants	6,748,812	-	6,748,812
			Federal grants	61,375	-	61,375
			Other local amounts	428,275	1,313	429,588
			Total general revenues	13,429,777	2,970	13,432,747
			Change in net position	954,491	(61,086)	893,405
			Net position as of July 1, 2016	6,871,689	553,246	7,424,935
			Net position as of June 30, 2017	\$ 7,826,180	\$ 492,160	\$ 8,318,340

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2017

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 4,486,969	\$ 76,230	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,587,901
Receivables:							
Taxes	113,956	-	-	-	-	-	113,956
Intergovernmental – State	-	4,690	-	-	-	-	4,690
Intergovernmental – Federal	-	117,616	-	-	-	-	117,616
Total assets	\$ 4,600,925	\$ 198,536	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,824,163
LIABILITIES AND FUND BALANCES							
Liabilities							
Unearned revenue	\$ -	\$ 198,536	\$ -	\$ -	\$ -	\$ -	\$ 198,536
Current portion of accumulated sick leave	108,348	-	-	-	-	-	108,348
Total liabilities	108,348	198,536	-	-	-	-	306,884
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	24,702	-	24,702
Committed to future sick leave	532,336	-	-	-	-	-	532,336
Assigned to purchase obligations	67,596	-	-	-	-	-	67,596
Unassigned	3,892,645	-	-	-	-	-	3,892,645
Total fund balances	4,492,577	-	-	-	24,702	-	4,517,279
Total liabilities and fund balances	\$ 4,600,925	\$ 198,536	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,824,163

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2017

Total fund balances – governmental funds	\$ 4,517,279
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$33,417,241, and the accumulated depreciation is \$14,353,475.	19,063,766
Deferred loss on bond refundings is not a current financial resource and therefore is not reported as deferred outflows of resources in governmental funds.	753,778
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(12,480,329)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(303,000)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(25,469)
Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$1,673,623, the deferred inflows of resources related to pension expense total \$316,768, and the total net pension liability is \$4,977,871.	(3,621,016)
Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(78,829)</u>
Total net position – governmental activities	<u>\$ 7,826,180</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2017

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 4,385,183	\$ -	\$ -	\$ 405,117	\$ -	\$ -	\$ 4,790,300
Motor vehicle	248,965	-	-	-	-	-	248,965
Utilities	1,115,239	-	-	-	-	-	1,115,239
Earnings on investments	36,811	-	-	-	-	-	36,811
Other local	428,275	15,249	-	-	-	-	443,524
Intergovernmental – State	8,793,664	891,512	152,213	190,990	-	818,281	10,846,660
Intergovernmental – Federal	61,375	641,612	-	-	-	-	702,987
Total revenues	15,069,512	1,548,373	152,213	596,107	-	818,281	18,184,486
Expenditures							
Current:							
Instruction	8,787,771	924,653	-	-	-	-	9,712,424
Student support services	787,793	52,748	-	-	-	-	840,541
Instructional staff support services	626,210	295,779	-	-	-	-	921,989
District administration	411,803	-	-	-	-	-	411,803
School administration	1,060,095	-	-	-	-	-	1,060,095
Business support services	536,291	25,739	-	-	-	-	562,030
Plant operations and maintenance	1,437,188	-	-	-	-	-	1,437,188
Student transportation	1,208,295	122,895	-	-	-	-	1,331,190
Non-instructional	23,931	-	-	-	-	-	23,931
Community services	22,862	158,305	-	-	-	-	181,167
Land improvement	70,597	-	-	-	-	-	70,597
Debt service	-	-	-	-	-	1,482,968	1,482,968
Total expenditures	14,972,836	1,580,119	-	-	-	1,482,968	18,035,923
Excess (deficit) of revenues over (under) expenditures	96,676	(31,746)	152,213	596,107	-	(664,687)	148,563
Other financing sources (uses)							
Operating transfers in	183,116	59,785	-	-	-	664,687	907,588
Operating transfers out	(131,229)	(28,039)	(152,213)	(596,107)	-	-	(907,588)
Total other financing sources (uses)	51,887	31,746	(152,213)	(596,107)	-	664,687	-
Net change in fund balance	148,563	-	-	-	-	-	148,563
Fund balance as of July 1, 2016	4,344,014	-	-	-	24,702	-	4,368,716
Fund balance as of June 30, 2017	\$ 4,492,577	\$ -	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,517,279

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2017

Net change in total fund balances – governmental funds	\$ 148,563
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which capital outlays (\$378,921) exceeded depreciation expense (\$941,238).	(562,317)
Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities.	(57,246)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	1,172,613
Accrued expense related to noncurrent portion of accrued liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources.	26,277
Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of the County Employees Retirement System contributions. However, on the statement of activities, the pension expense is calculated using the accrual basis of accounting which accounts for the long-term increases and decreases in the net pension liability.	216,301
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>10,300</u>
Change in net position – governmental activities	<u>\$ 954,491</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2017

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	\$ 147,159	\$ 140,849	\$ 1,648	\$ 289,656
Inventory	<u>30,395</u>	<u>-</u>	<u>-</u>	<u>30,395</u>
Total current assets	177,554	140,849	1,648	320,051
Noncurrent assets				
Capital assets	710,445	-	8,596	719,041
Less accumulated depreciation	<u>542,121</u>	<u>-</u>	<u>4,810</u>	<u>546,931</u>
Total noncurrent assets	<u>168,324</u>	<u>-</u>	<u>3,786</u>	<u>172,110</u>
Total assets	345,878	140,849	5,434	492,161
NET POSITION				
Invested in capital assets	168,324	-	3,786	172,110
Unrestricted	<u>177,554</u>	<u>140,849</u>	<u>1,648</u>	<u>320,051</u>
Total net position	<u>\$ 345,878</u>	<u>\$ 140,849</u>	<u>\$ 5,434</u>	<u>\$ 492,161</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS

Year ended June 30, 2017

	School Food Service <u>Fund</u>	Day Care <u>Fund</u>	Community Education <u>Fund</u>	Total Proprietary <u>Funds</u>
Operating revenues				
Lunchroom sales	\$ 329,438	\$ -	\$ -	\$ 329,438
Tuition and fees	<u>-</u>	<u>49,677</u>	<u>223</u>	<u>49,900</u>
Total operating revenues	329,438	49,677	223	379,338
Operating expenses				
Salaries, wages, and benefits	540,945	69,943	-	610,888
Contract services	21,413	268	52	21,733
Materials and supplies	388,262	1,644	396	390,302
Depreciation	52,966	-	1,829	54,795
Other	<u>29,851</u>	<u>10,937</u>	<u>479</u>	<u>41,267</u>
Total operating expenses	<u>1,033,437</u>	<u>82,792</u>	<u>2,756</u>	<u>1,118,985</u>
Operating loss	(703,999)	(33,115)	(2,533)	(739,647)
Nonoperating revenues				
Federal grants	607,562	-	-	607,562
State grants	68,030	-	-	68,030
Interest income	825	832	-	1,657
Other	<u>-</u>	<u>-</u>	<u>1,313</u>	<u>1,313</u>
Total nonoperating revenues	676,417	832	1,313	678,562
Change in net position	(27,582)	(32,283)	(1,220)	(61,085)
Net position as of July 1, 2016	<u>373,460</u>	<u>173,132</u>	<u>6,654</u>	<u>553,246</u>
Net position as of June 30, 2017	<u>\$ 345,878</u>	<u>\$ 140,849</u>	<u>\$ 5,434</u>	<u>\$ 492,161</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended June 30, 2017

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities				
Cash received from:				
Lunchroom sales	\$ 329,438	\$ -	\$ -	\$ 329,438
Tuition and fees	-	49,677	223	49,900
Cash paid to/for:				
Employees	(481,269)	(69,943)	-	(551,212)
Contract services	(21,413)	(268)	(52)	(21,733)
Materials and supplies	(349,347)	(1,644)	(396)	(351,387)
Other	(29,851)	(10,937)	(479)	(41,267)
Net cash used in operating activities	(552,442)	(33,115)	(704)	(586,261)
Cash flows from noncapital financing activities				
Government grants	577,000	-	-	577,000
Other	-	-	1,313	1,313
Net cash provided by noncapital financing activities	577,000	-	1,313	578,313
Cash flows from investing activities				
Receipt of interest income	825	832	-	1,657
Net cash provided by investing activities	825	832	-	1,657
Net increase (decrease) in cash	25,383	(32,283)	609	(6,291)
Cash as of July 1, 2016	121,776	173,132	1,039	295,947
Cash as of June 30, 2017	<u>\$ 147,159</u>	<u>\$ 140,849</u>	<u>\$ 1,648</u>	<u>\$ 289,656</u>
Reconciliation of operating loss to net cash used in operating activities				
Operating loss	\$ (703,999)	\$ (33,115)	\$ (2,533)	\$ (739,647)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	52,966	-	1,829	54,795
Donated commodities	38,916	-	-	38,916
State on-behalf payments	59,676	-	-	59,676
Change in inventory	(1)	-	-	(1)
Net cash used in operating activities	<u>\$ (552,442)</u>	<u>\$ (33,115)</u>	<u>\$ (704)</u>	<u>\$ (586,261)</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND
June 30, 2017

**Student
Activity
Funds**

ASSETS

Cash	\$ 267,533
Accounts receivable	<u>322</u>
Total assets	267,855

LIABILITIES

Accounts payable	2,858
Due to student groups/employees	<u>264,997</u>
Total liabilities	<u>267,855</u>

NET POSITION

\$ -

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2017

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Hancock County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hancock County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organization are included in the accompanying basic financial statements:

Hancock County School District Finance Corporation – The Hancock County, Kentucky, Board of Education established the Hancock County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Hancock County Board of Education also comprise the Corporation's Board of Directors.

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the District's general revenues.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each fund is presented in a separate column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the funds' principal operations. The funds' principal operating revenues are food service charges and tuition and fees. Operating expenses include salaries and benefits, materials and supplies, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

4. The Debt Service Fund accounts for and reports expenditures for debt service. This is a major fund of the District.

b. Proprietary fund types

The School Food Service Fund accounts for and reports school food service activities, primarily including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

The Day Care Fund and the Community Education Fund are used to account for and report after-school child care and community education revenues and programs where a fee is charged for participating. These are major funds of the District.

c. Fiduciary fund type

Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds* (Redbook).

Budgetary process – The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America, (GAAP).

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund and the School Food Service Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Cash and cash equivalents – The District considers certificates of deposit and money market accounts with maturities of three months or less to be cash and cash equivalents.

Inventory – Inventory which consists of food and supplies is recorded at the lower of cost, determined by the first-in first-out (FIFO) method or, market.

Deferred loss on bond refundings – Deferred loss on bond refundings represents losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Deferred outflows and deferred inflows of resources related to pension expense – Deferred outflows and deferred inflows of resources related to pension expense represent District contributions to a multi-employer pension plan after the measurement date (June 30, 2016) used to account for the pension liability, the impact on pension liability related to differences between expected and actual experience, changes of assumptions, net differences between projected and actual earnings on pension plan investments, and changes in proportion and differences between District contributions and proportionate share of contributions on the accompanying statement of net position.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. There were no interfund balances as of June 30, 2017.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. Those assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years
Community education equipment	5 years
Other	20 years

Accrued liabilities and long-term obligations – All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information in the governmental financial statements. The current portion of the liability is estimated based on anticipated payouts in the succeeding fiscal year.

Pensions – For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pension expense, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2017.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classification.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which both restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements in accordance with GAAP requires the District's management to make estimates and assumptions that affect reported amounts of assets, deferred outflows and deferred inflows of resources, liabilities, net position/fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fair value measurements – The District applies fair value measurements as prescribed by GASB Statement No. 72 which requires entities to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant as of the measurement date. This statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB Standards that require or permit fair value measurements and disclosures. The guidance requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in inactive markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair value of the District's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

These methods may produce a fair value calculation that may not be indicative of net realizable value, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain assets and liabilities could result in different fair value measurements as of June 30, 2017.

Subsequent events – The District's management has evaluated subsequent events through November 13, 2017, the date which the financial statements were available for issue. No subsequent events were of such a nature as to require disclosure.

New accounting pronouncements – In June 2015, GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. These statements establish new reporting and disclosure requirements for entities that provide postemployment benefits other than retirements and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. These statements are effective for reporting periods beginning after June 15, 2017. The District has not determined the impact these statements will have on future financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* which increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for leases that are currently accounted for as operating leases. This statements is effective for reporting periods beginning after December 15, 2019. The District has not determined the impact this statement will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2017, the carrying amount of the District's deposits with financial institutions was \$5,145,090, and its bank balance totaled \$6,645,149. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash and cash equivalents are commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash and cash equivalent amount within the following funds is considered to be restricted:

Special Revenue Fund
School Construction Fund
Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2017 were \$.6170 per \$100 valuation for real property, \$.6170 per \$100 valuation for business personal property, and \$.40 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3.0% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2017</u>
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,102,570	67,972	-	1,170,542
Buildings and improvements	26,136,768	19,491	-	26,156,259
Technology equipment	2,448,071	-	-	2,448,071
Vehicles	2,284,374	182,262	145,796	2,320,840
General equipment	925,322	109,196	-	1,034,518
Other	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
Total cost	33,184,116	378,921	145,796	33,417,241
Less accumulated depreciation:				
Land improvements	733,740	39,969	-	773,709
Buildings and improvements	8,193,032	635,255	-	8,828,287
Technology equipment	2,056,621	143,098	-	2,199,719
Vehicles	1,769,424	98,987	145,796	1,722,615
General equipment	804,564	23,869	-	828,433
Other	<u>652</u>	<u>60</u>	<u>-</u>	<u>712</u>
Total accumulated depreciation	<u>13,558,033</u>	<u>941,238</u>	<u>145,796</u>	<u>14,353,475</u>
Governmental activities net capital assets	<u>\$ 19,626,083</u>	<u>\$ (562,317)</u>	<u>\$ -</u>	<u>\$ 19,063,766</u>

<u>Business-Type Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2017</u>
Food service equipment	\$ 710,445	\$ -	\$ -	\$ 710,445
Community education equipment	<u>8,596</u>	<u>-</u>	<u>-</u>	<u>8,596</u>
Total cost	719,041	-	-	719,041
Less accumulated depreciation:				
Food service equipment	489,155	52,966	-	542,121
Community education equipment	<u>2,981</u>	<u>1,829</u>	<u>-</u>	<u>4,810</u>
Total accumulated depreciation	<u>492,136</u>	<u>54,795</u>	<u>-</u>	<u>546,931</u>
Business-type activities net capital assets	<u>\$ 226,905</u>	<u>\$ (54,795)</u>	<u>\$ -</u>	<u>\$ 172,110</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 688,239
Instructional staff support services	31,828
District administration	18,007
School administration	110
Business support services	1,174
Plant operations and maintenance	97,847
Student transportation	103,292
Community services	<u>741</u>
Total depreciation expense	<u>\$ 941,238</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Hancock County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rate are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2007	\$ 3,585,000	3.45 – 4.18%
2009	653,459	1.00 – 3.25%
2012	675,000	3.75%
2012	8,010,000	2.00 – 2.375%
2013	975,000	0.70 – 1.100%
2014	480,000	3.00 – 4.00%
2015	1,235,000	2.10 – 3.30%
2016	4,415,000	2.00 – 3.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hancock County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 2007, 2012, 2014, 2015, and 2016 the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the District's responsibility to make future debt service payments, and the amount to be paid by the Commission, for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2017 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Hancock County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 519,724	\$ 138,203	\$ 639,089	\$ 163,238	\$ 1,460,254
2019	530,648	129,687	650,868	148,864	1,460,067
2020	438,500	120,903	651,500	135,106	1,346,009
2021	447,548	112,155	662,452	121,275	1,343,430
2022	451,377	103,176	678,623	107,224	1,340,400
2023	469,412	93,643	690,588	92,190	1,345,833

Fiscal Year Ending	Hancock County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2024	\$ 486,608	\$ 83,133	\$ 703,392	\$ 76,221	\$ 1,349,354
2025	536,915	67,365	238,085	59,370	901,735
2026	558,917	53,612	246,083	52,925	911,537
2027	570,229	36,675	249,771	44,882	901,557
2028	588,191	19,299	236,809	37,053	881,352
2029	172,516	7,888	162,484	30,520	373,408
2030	176,678	2,650	173,322	24,850	377,500
2031	-	-	145,000	19,227	164,227
2032	-	-	105,000	14,030	119,030
2033	-	-	105,000	10,355	115,355
2034	-	-	115,000	6,680	121,680
2035	-	-	80,000	2,640	82,640
	<u>\$ 5,947,263</u>	<u>\$ 968,389</u>	<u>\$ 6,533,066</u>	<u>\$ 1,146,650</u>	<u>\$ 14,595,368</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2017 is as follows:

Issue	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017
2007	\$ 185,000	\$ -	\$ 90,000	\$ 95,000
2009	218,659	-	78,330	140,329
2012	545,000	-	30,000	515,000
2012	6,080,000	-	610,000	5,470,000
2013	576,558	-	191,558	385,000
2014	440,000	-	20,000	420,000
2015	1,185,000	-	50,000	1,135,000
2016	<u>4,415,000</u>	<u>-</u>	<u>95,000</u>	<u>4,320,000</u>
Totals	<u>\$ 13,645,217</u>	<u>\$ -</u>	<u>\$ 1,164,888</u>	<u>\$ 12,480,329</u>

6. Accumulated unpaid sick leave benefits

Upon retirement from the District, eligible employees will receive an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2017 is as follows:

Balance as of July 1, 2016	\$ 403,011
Additions	61,433
Less payments/forfeitures	<u>53,096</u>
Balance as of June 30, 2017	411,348
Less current portion	<u>108,348</u>
Noncurrent portion	<u>\$ 303,000</u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2017 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

District employees are provided with two pension plans based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Teachers' Retirement System of the State of Kentucky (TRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General information about CERS

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old, or at least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 18.68% (17.06% for 2016, used in measurement period) of the employee's total covered compensation. The District's matching contributions total \$475,330 (\$411,452 for 2016, used in measurement period) for the year ended June 30, 2017.

General information about the Teachers' Retirement System of the State of Kentucky

Plan description – The District's teaching certified employees and certain other employees whose positions require at least a college degree are provided pensions through TRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky, and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://www.trs.ky.gov/financial-reports-information>.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Employees hired (including second retirement accounts) after July 1, 2002 and before July 1, 2008 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. Employees after July 1, 2002 and before July 1, 2008 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Employees hired after July 1, 2008 will receive monthly

benefits equal to 1.7% of their final average salary for each year of service if, upon retirement, their total service is less than ten years; 2% if their years of service are ten to twenty years; 2.5% if their years of service are twenty to twenty-five years; and 2.5% if their service exceeds 26 years.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.855% (12.855% for 2016, used in measurement period) of their salaries to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for employees hired before July 1, 2008, and 14.105% for those hired after July 1, 2008. For employees whose salaries are federally funded, the District contributes 16.105% (16.105% for 2016, used in measurement period) of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the employee's request.

Other retirement plans

The District also offers employees three options to participate in a 403(b) Plan under Section 403(b), 401(k), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate in the American Fidelity, Lincoln, or 403B ASP plans, and may contribute up to the maximum amount allowable by law. Members contributed approximately \$174,453 during the year ended June 30, 2017. The District does not contribute to these plans.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the Kentucky General Assembly.

To be eligible for medical benefits, the employee must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of all certified employees is contributed. 3% of the amount is paid by employee contributions and 3% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on the District's behalf. The approximate amount recognized by the District and the Commonwealth of Kentucky as its proportionate share of the net pension liability were as follows:

District's proportionate share of the CERS net pension liability	\$ 4,978,000
Commonwealth's proportionate share of the TRS net liability associated with the District	72,080,000

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportionate share of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of CERS as determined by the actuary. At June 30, 2016, the District's proportion was 0.10%.

For the year ended June 30, 2017, the District recognized pension expense totaling approximately \$259,000 related to CERS.

The District reported deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 51,604	\$ -
Changes of assumptions	626,171	-
Net difference between projected and actual earnings on pension plan investments	500,193	225,600
Changes in proportion and differences between District contributions and proportionate share of contributions	20,325	91,168
District contributions subsequent to the measurement date	<u>475,330</u>	<u>-</u>
Total	<u>\$ 1,673,623</u>	<u>\$ 316,768</u>

Other amounts reported as deferred outflows and deferred inflows related to pension expense will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 736,797	\$ 93,434
2019	261,467	93,434
2020	261,467	93,434
2021	261,464	18,234
2022	152,428	18,232

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0 – 8.2%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000

Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For TRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of one year for females.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44.0%	5.40%
Combined fixed income	19.0%	1.50%
Real return (Diversified inflation strategies)	10.0%	3.50%
Real estate	5.0%	4.50%
Absolute return (Diversified hedge funds)	10.0%	4.25%
Private equity	10.0%	8.50%
Cash equivalent	<u>2.0%</u>	(0.25)%
Total	100.0%	

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	45.0%	6.4%
Non U.S. equity	17.0%	6.5%
Fixed-income	24.0%	1.6%
High yield bonds	4.0%	3.1%
Real estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.0%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement Systems Comprehensive Annual Financial Report.

For TRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Investment Rate (SEIR). There was a change in the Municipal Bond Index Rate from the prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	6,203,000	4,978,000	3,927,000
TRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

9. On-behalf payments for fringe benefits and other District expenditures

The District receives on-behalf payments for fringe benefits and other District expenditures from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to TRS	\$ 1,186,011
Health and life insurance	1,651,287
Technology	61,113
Debt service	789,931
KISTA lease	<u>28,350</u>
Total	<u>\$ 3,716,692</u>

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation; unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the School Food Service Fund, Day Care Fund, and the Community Education Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

13. Transfer of funds

The following transfers were made during the year ended June 30, 2017:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 31,746
Debt Service	General	Debt Service	Debt payments	99,483
Operating	FSPK	General	Administrative	30,903
Debt Service	FSPK	Debt Service	Debt payments	565,204
Operating	SEEK Capital Outlay	General	Administrative	152,213
Operating	Special Revenue	Special Revenue	Reallocation	28,039

14. Interfund receivables and payables

There were no interfund receivables or payables as of June 30, 2017.

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

Year ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,760,000	\$ 3,032,000	\$ 4,385,183	\$ 1,353,183
Motor vehicle	220,000	230,000	248,965	18,965
Utilities	1,100,000	980,000	1,115,239	135,239
Earnings on investments	32,000	35,000	36,811	1,811
Tuition and fees	5,000	5,000	-	(5,000)
Other local	251,510	253,010	428,275	175,265
Intergovernmental – State	6,493,570	6,493,570	8,793,664	2,300,094
Intergovernmental – Federal	40,000	45,000	61,375	16,375
Total revenues	10,902,080	11,073,580	15,069,512	3,995,932
Expenditures				
Current:				
Instruction	7,137,646	7,365,234	8,787,771	(1,422,537)
Student support services	715,773	692,765	787,793	(95,028)
Instructional staff support services	623,774	612,320	626,210	(13,890)
District administration	798,557	800,407	411,803	388,604
School administration	944,820	944,769	1,060,095	(115,326)
Business support services	434,327	434,496	536,291	(101,795)
Plant operations and maintenance	1,524,998	1,525,430	1,437,188	88,242
Student transportation	1,192,790	1,232,797	1,208,295	24,502
Non-instructional	7,370	7,570	23,931	(16,361)
Community services	23,330	24,305	22,862	1,443
Land improvement	-	-	70,597	(70,597)
Contingency	557,139	491,931	-	491,931
Total expenditures	13,960,524	14,132,024	14,972,836	(840,812)
Excess (deficit) of revenues over (under) expenditures	(3,058,444)	(3,058,444)	96,676	3,155,120
Other financing sources (uses)				
Operating transfers in	178,927	178,927	183,116	4,189
Operating transfers out	(120,483)	(120,483)	(131,229)	(10,746)
Total other financing sources (uses)	58,444	58,444	51,887	(6,557)
Net change in fund balance	(3,000,000)	(3,000,000)	148,563	3,148,563
Fund balance as of July 1, 2016	4,344,014	4,344,014	4,344,014	-
Fund balance as of June 30, 2017	\$ 1,344,014	\$ 1,344,014	\$ 4,492,577	\$ 3,148,563

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS Year ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ -	\$ -	\$ 15,249	\$ 15,249
Intergovernmental – State	840,660	859,995	891,512	31,517
Intergovernmental – Federal	<u>693,562</u>	<u>701,203</u>	<u>641,612</u>	<u>(59,591)</u>
Total revenues	1,534,222	1,561,198	1,548,373	(12,825)
Expenditures				
Current:				
Instruction	944,664	970,742	924,653	46,089
Student support services	68,835	66,194	52,748	13,446
Instructional staff support services	308,984	324,574	295,779	28,795
Business support services	13,608	37,492	25,739	11,753
Student transportation	62,737	52,930	122,895	(69,965)
Community services	<u>156,394</u>	<u>158,305</u>	<u>158,305</u>	<u>-</u>
Total expenditures	<u>1,555,222</u>	<u>1,610,237</u>	<u>1,580,119</u>	<u>30,118</u>
(Deficit) excess of revenues (under) over expenditures	(21,000)	(49,039)	(31,746)	17,293
Other financing sources (uses)				
Operating transfers in	21,000	49,039	59,785	10,746
Operating transfers out	<u>-</u>	<u>-</u>	<u>(28,039)</u>	<u>(28,039)</u>
Total other financing sources (uses)	<u>21,000</u>	<u>49,039</u>	<u>31,746</u>	<u>(17,293)</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – COUNTY EMPLOYEES RETIREMENT SYSTEM

Years ended June 30, 2017, 2016, and 2015

District's proportion of the net pension liability	
2017 (2016 measurement period)	0.10%
2016 (2015 measurement period)	0.10%
2015 (2014 measurement period)	0.10%
District's proportionate share of the net pension liability	
2017 (2016 measurement period)	\$ 4,977,871
2016 (2015 measurement period)	4,493,176
2015 (2014 measurement period)	3,372,000
District's covered-employee payroll	
2017 (2016 measurement period)	\$ 2,411,794
2016 (2015 measurement period)	2,426,802
2015 (2014 measurement period)	2,383,743
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	
2017 (2016 measurement period)	206.40%
2016 (2015 measurement period)	185.15%
2015 (2014 measurement period)	141.46%
Plan fiduciary net position as a percentage of the total pension liability	
2017 (2016 measurement period)	55.50%
2016 (2015 measurement period)	59.97%
2015 (2014 measurement period)	66.80%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS – COUNTY EMPLOYEES RETIREMENT SYSTEM Years ended June 30, 2017, 2016, and 2015

Contractually required contribution	
2017 (2016 measurement period)	\$ 411,452
2016 (2015 measurement period)	431,000
2015 (2014 measurement period)	450,289
Contributions in relation to the contractually required contribution	
2017 (2016 measurement period)	\$ 411,452
2016 (2015 measurement period)	431,000
2015 (2014 measurement period)	450,289
Contribution deficiency (excess)	
2017 (2016 measurement period)	\$ -
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-
District's covered-employee payroll	
2017 (2016 measurement period)	\$ 2,411,794
2016 (2015 measurement period)	2,426,802
2015 (2014 measurement period)	2,383,743
Contributions as a percentage of covered-employee payroll	
2017 (2016 measurement period)	17.06%
2016 (2015 measurement period)	17.76%
2015 (2014 measurement period)	18.89%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES RETIREMENT SYSTEM Year ended June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2016 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2015), the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – TEACHERS' RETIREMENT SYSTEM

Years ended June 30, 2017, 2016, and 2015

Commonwealth of Kentucky's proportion of the
net pension liability

2017 (2016 measurement period)	0.23%
2016 (2015 measurement period)	0.23%
2015 (2014 measurement period)	0.22%

Commonwealth of Kentucky's proportionate share
of the net pension liability

2017 (2016 measurement period)	\$ 72,079,974
2016 (2015 measurement period)	56,460,482
2015 (2014 measurement period)	47,456,512

Plan fiduciary net position as a percentage of the
total pension liability

2017 (2016 measurement period)	35.22%
2016 (2015 measurement period)	42.49%
2015 (2014 measurement period)	45.59%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS –
TEACHERS' RETIREMENT SYSTEM**

Years ended June 30, 2017, 2016, and 2015

Commonwealth of Kentucky statutorily required contribution	
2017 (2016 measurement period)	\$ 1,186,011
2016 (2015 measurement period)	1,167,059
2015 (2014 measurement period)	1,118,328
Commonwealth of Kentucky contributions in relation to the statutorily required contribution	
2017 (2016 measurement period)	\$ 1,186,011
2016 (2015 measurement period)	1,167,059
2015 (2014 measurement period)	1,118,328
Commonwealth of Kentucky annual contribution deficiency (excess)	
2017 (2016 measurement period)	\$ -
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2016 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2015) the demographic and economic assumptions that affect the measurement of total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available. Since the Commonwealth of Kentucky makes all retirement contributions, the District does not have a liability and has not included any District amount in the required supplementary information.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS -
MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS

Year ended June 30, 2017

<u>School</u>	Cash July 1, 2016	<u>Receipts</u>	<u>Disbursements</u>	Cash June 30, 2017	<u>Accounts Receivable June 30, 2017</u>	<u>Accounts Payable June 30, 2017</u>	Due to Student Groups June 30, 2017
North Hancock Elementary School	\$ 34,367	\$ 92,450	\$ 95,326	\$ 31,491	\$ -	\$ 2,858	\$ 28,633
South Hancock Elementary School	29,807	28,198	31,062	26,943	-	-	26,943
Hancock County Middle School	<u>78,460</u>	<u>120,140</u>	<u>112,012</u>	<u>86,588</u>	<u>322</u>	<u>-</u>	<u>86,910</u>
Totals	<u>\$ 142,634</u>	<u>\$ 240,788</u>	<u>\$ 238,400</u>	<u>\$ 145,022</u>	<u>\$ 322</u>	<u>\$ 2,858</u>	<u>\$ 142,486</u>

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS

Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
General	\$ 4,089	\$ 29,617	\$ 31,350	\$ 549	\$ 2,905	\$ -	\$ -	2,905
Teachers lounge	248	1,360	1,306	-	302	-	-	302
Vending	583	2,028	1,817	(119)	675	-	-	675
Fundraisers	141	1,229	946	-	424	-	-	424
Flower and gift fund	74	-	30	-	44	-	-	44
Gate receipts	8,998	66,563	7,791	(52,706)	15,064	-	-	15,064
Athletic department	-	2,423	6,963	4,540	-	-	-	-
Archery	-	-	920	920	-	-	-	-
Archery boosters	11,690	8,576	11,801	-	8,465	-	-	8,465
Baseball	-	200	5,959	5,759	-	-	-	-
Bass fishing	-	8,572	6,050	-	2,522	-	-	2,522
Boys basketball	-	-	5,473	5,473	-	-	-	-
Boys basketball boosters	10,652	28,665	30,795	(879)	7,643	-	-	7,643
Cross country	-	-	3,822	3,822	-	-	-	-
Cross country boosters	3,071	6,136	6,416	-	2,791	-	-	2,791
Football	-	-	12,902	12,902	-	-	-	-
Football boosters	14,377	35,604	40,816	(1,660)	7,505	-	-	7,505
Football uniforms	-	-	-	2,400	2,400	-	-	2,400
Girls basketball	-	-	4,926	4,926	-	-	-	-

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Girls basketball boosters	\$ 1,077	\$ 14,783	\$ 16,512	\$ 4,031	\$ 3,379	-	\$ -	\$ 3,379
Golf	-	-	1,807	1,807	-	-	-	-
Golf boosters	-	3,285	2,667	250	868	-	-	868
Softball	-	200	4,558	4,358	-	-	-	-
Tennis	-	1,075	2,000	925	-	-	-	-
Tennis boosters	-	869	-	-	869	-	-	869
Track	-	-	1,837	1,837	-	-	-	-
Track and XC boosters	1,093	5,572	5,424	-	1,241	-	-	1,241
Volleyball	-	-	4,095	4,095	-	-	-	-
Volleyball boosters	8,980	19,797	25,825	2,670	5,622	-	-	5,622
Tri-Concessions	1,890	18,933	10,854	(7,968)	2,001	-	-	2,001
Tournament	-	15,919	13,002	(2,917)	-	-	-	-
State tournament	-	2,662	6,862	4,200	-	-	-	-
Academic team	407	1,899	2,293	747	760	-	-	760
Academic team regional	-	1,000	525	(475)	-	-	-	-
Arts and Humanities	152	50	41	-	161	-	-	161
Beta Club	45	1,465	1,034	-	476	-	-	476
Cheerleaders	-	-	887	933	46	-	-	46

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Cheer booster	\$ 2,824	\$ 20,935	\$ 22,055	\$ (25)	\$ 1,679	\$ -	\$ -	\$ 1,679
Cheer scholarship	92	268	300	-	60	-	-	60
FBLA	725	4,245	4,188	(100)	682	-	-	682
FCA	352	-	-	(352)	-	-	-	-
FEA	536	-	-	(536)	-	-	-	-
FFA	3,965	14,831	18,614	(54)	128	-	-	128
FHA	8	2,217	1,718	216	723	-	-	723
FCCLA Regional	735	150	65	-	820	-	-	820
Art Club	10	999	1,089	80	-	-	-	-
Pep Club	36	1,568	1,293	-	311	-	-	311
Reading Club	521	-	107	(25)	389	-	-	389
Spanish Club	855	3,463	3,425	-	893	-	-	893
Sp Educ Learn Ctr	178	-	133	(45)	-	-	-	-
Social Studies Club	44	120	152	-	12	-	-	12
Student Council	38	-	-	-	38	-	-	38
TSA	434	2,749	3,596	413	-	-	-	-
Skills USA	109	-	1	(108)	-	-	-	-
HOSA	32	-	26	-	6	-	-	6
Safe committee	623	-	-	-	623	-	-	623

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Business	\$ 324	\$ 449	\$ 314	\$ (25)	\$ 434	\$ -	\$ -	434
Chorus	6,074	6,615	5,555	-	7,134	-	-	7,134
Community Based								
Education	474	9,898	8,013	-	2,359	-	-	2,359
Special Ed Fundraiser	3,453	492	2,041	20	1,924	-	-	1,924
Dance Team	13	-	-	(13)	-	-	-	-
Health and PE	359	-	-	(359)	-	-	-	-
Family Consumer Science	676	280	241	(25)	690	-	-	690
Theatre	4,594	4,552	3,986	17	5,177	-	-	5,177
Yearbook	10,107	10,635	11,071	-	9,671	-	-	9,671
Spoken Word Society	129	-	23	-	106	-	-	106
C D Mayfield Scholar	354	-	-	-	354	-	-	354
Scholarship	1,344	1,000	1,000	-	1,344	-	-	1,344
Memorial Garden	126	-	-	-	126	-	-	126
Textbook rental	1,601	40,570	35,128	143	7,186	-	-	7,186
Poster printer	-	-	169	175	6	-	-	6
Field trips	397	900	1,270	-	27	-	-	27
Technology	902	240	1,142	-	-	-	-	-
Student/staff need	414	-	168	-	246	-	-	246

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Prom account	\$ 4,038	\$ 4,616	\$ 4,368	\$ -	\$ 4,286	-	\$ -	\$ 4,286
Relay for Life	569	-	-	-	569	-	-	569
Summer school	1,242	100	-	-	1,342	-	-	1,342
KOSSA	17	-	-	-	17	-	-	17
KYA	-	131	115	-	16	-	-	16
After prom	2,099	2,032	2,041	-	2,090	-	-	2,090
Fletcher Thrasher S	177	253	251	-	179	-	-	179
IT scholarship	193	-	-	-	193	-	-	193
Youth Service Center	1,819	5,878	4,951	310	3,056	-	-	3,056
IPad repairs	70	3,690	3,683	-	77	-	-	77
Class of 2017	2,261	603	2,737	(127)	-	-	-	-
Class of 2018	144	1,018	436	(44)	682	-	-	682
Class of 2019	368	58	-	44	470	-	-	470
Class of 2020	-	323	100	-	223	-	-	223
Totals	\$ 124,022	\$ 424,360	\$ 425,871	\$ -	\$ 122,511	\$ -	\$ -	\$ 122,511

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100002-16	\$ 224,244
		3100002-15	30,999
		3100002-14	<u>1,006</u>
Subtotal			256,249
Special Education	84.027 *1	3810002-16	235,078
		3810002-15	30,926
		3810002-14	<u>5,455</u>
Subtotal			271,459
Special Education Preschool	84.173 *1	3800002-15	14,719
Vocational Education Basic	84.048	3710002-16	9,014
Improving Teacher Quality	84.367	3230002-16	37,859
		3230002-15	<u>18,055</u>
Subtotal			55,914
Adult Education	84.002	365C	4,049
		373C	<u>19,200</u>
Subtotal			23,249
21 st Century Community	84.287	3400002-14	<u>11,008</u>
Total U.S. Department of Education			641,612

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education: National School Lunch Program	10.555 *2	7750002-17 7750002-16	\$ 321,750 92,391 <u>414,141</u>
Subtotal			
National School Breakfast Program	10.553 *2	7760005-17 7760005-16	152,891 40,530 <u>193,421</u>
Subtotal			
Total U.S. Department of Agriculture			<u>607,562</u>
Total cash expenditures			1,249,174
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture: Food Donation	10.555 *2	Not Provided	<u>38,916</u>
Total federal expenditures			<u>\$ 1,288,090</u>
*1 Special Education Cluster		Total	<u>\$ 286,178</u>
*2 Child Nutrition Cluster		Total	<u>\$ 646,478</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

1. Basis of presentation

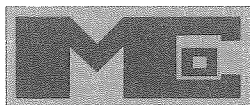
The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hancock County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. These donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Indirect cost rate

The District does not apply the 10% de minimus indirect cost rate.



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Report and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract Report, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet* the financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements – State Compliance Requirements*.

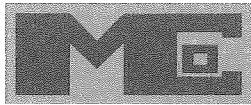
We noted certain other matters that we reported to the District's management in a separate letter dated November 13, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2017



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirement of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit*

Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2017

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness identified

____ Yes ✓ No

Significant deficiencies identified that are not
considered to be material weaknesses

____ Yes ✓ None reported

Noncompliance material to financial
statement notes

____ Yes ✓ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

____ Yes ✓ No

Significant deficiencies identified that are not
considered to be material weaknesses

____ Yes ✓ None reported

Type of auditor's report issued on compliance for
major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section 200.516
of the Uniform Guidance

____ Yes ✓ No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.555/10.553

Child Nutrition

Dollar threshold used to distinguish
between Type A and Type B program

\$ 750,000

Auditee qualified as low risk

✓ Yes ____ No

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2017

Section II – Financial Statement Findings

No matters to report

Section III – Federal Award Findings

No matters to report.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2017

There were no prior year audit findings.

Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

In planning and performing our audit of the basic financial statements of the Hancock County School District (District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet*, we considered the District's internal control over financial reporting and compliance to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 13, 2017 on the financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 13, 2017

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

SOUTH HANCOCK ELEMENTARY SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: Similar instances were noted in the current year.

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to payment of sales tax for supplies.

Current year follow-up: No similar instances were noted in the current year.

NORTH HANCOCK ELEMENTARY SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: No similar instances were noted in the current year.

Prior year comment: During disbursements testing we noted a cash disbursement to purchase supplies without supporting documentation.

Current year follow-up: No similar instance was noted in the current year.

Prior year comment: We noted an instance where Redbook guidelines were not followed with regard to one purchase order.

Current year follow-up: Similar instances were noted in the current year.

HANCOCK COUNTY HIGH SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: Similar instances were noted in the current year.

HANCOCK COUNTY MIDDLE SCHOOL

Prior year comment: We noted instances where prenumbered receipts were not used to agree to the amount on the multiple receipt form.

Current year follow-up: No similar instances were noted in the current year.

Current Year Findings

SOUTH HANCOCK ELEMENTARY SCHOOL

Statement of deficiency: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Criteria for deficiency: Funds were not timely deposited after collection from the students.

Cause of the deficiency: Funds collected were not deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at South Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.

NORTH HANCOCK ELEMENTARY SCHOOL

Statement of deficiency: We noted an instance where Redbook guidelines were not followed with regard to one purchase order.

Criteria for deficiency: The approved purchase order was dated after the invoice date.

Cause of the deficiency: The Principal did not approve the purchase order before the item was ordered.

Effect of the deficiency: Redbook purchase guidelines were not followed.

Recommendation for correction: We recommend the District follow applicable Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at North Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for completing purchase orders before supplies/services are ordered or rendered. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.

HANCOCK COUNTY HIGH SCHOOL

Statement of deficiency: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Criteria for deficiency: Funds were not timely deposited after collection from the students.

Cause of the deficiency: Funds collected were not deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County High School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.

Statement of deficiency: We noted instances where Redbook guidelines were not followed with regard to payment of sales tax for supplies.

Criteria for deficiency: Prior to purchasing items the tax exempt status was not properly communicated to the vendor. A copy of the Tax Exemption Certificate is to be sent to any vendor requesting one for a school activity fund purchase.

Cause of the deficiency: The school was improperly charged for sales tax on a purchase.

Effect of the deficiency: Redbook purchase guidelines were not followed.

Recommendation for correction: Sponsors should shop at stores with the tax exempt status on file.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County High School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.

HANCOCK COUNTY MIDDLE SCHOOL

Statement of deficiency: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Criteria for deficiency: Funds were not timely deposited after collection from the students.

Cause of the deficiency: Funds collected were not deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County Middle School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.

Statement of deficiency: We noted an instance where Redbook guidelines were not followed with regard to one purchase order.

Criteria for deficiency: The approved purchase order was dated after the invoice date.

Cause of the deficiency: The Principal did not approve the purchase order before the item was ordered.

Effect of the deficiency: Redbook purchase guidelines were not followed.

Recommendation for correction: We recommend the District follow applicable Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County Middle School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for completing purchase orders before supplies/services are ordered or rendered. The Hancock County Board of Education hired Ron Flannery to provide Redbook training on June 1, 2017 to all school principals and bookkeepers. The purpose behind this training was to provide a refresher course to all existing/new personnel on proper Kentucky Activity Fund (Redbook) Accounting Procedures. We are hopeful that this training will prevent reoccurrence of these issues in future audits.